

GAO

May 1990

PUBLIC DEBT

Management Actions Needed to Ensure More Accurate Accounting





United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-233866

May 31, 1990

The Honorable Nicholas F. Brady
The Secretary of the Treasury

Dear Mr. Secretary:

This report discusses the results of our review of the Bureau of the Public Debt's internal control and accounting systems. We reviewed the systems to determine whether they (1) enable the Bureau to accurately account for the public debt and related interest and (2) conform to Comptroller General standards as required by the Federal Managers' Financial Integrity Act of 1982.

This report contains recommendations to you in chapter 2. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

The report is being sent to the Director, Office of Management and Budget; the Chairman, Board of Governors of the Federal Reserve System; and interested congressional committees and members. Copies will also be made available to others on request.

Major contributors are listed in appendix II. Please contact me at 275-8387 if you or your staff have any questions concerning the report.

Sincerely yours,

A handwritten signature in black ink that reads 'J. William Gadsby'. The signature is written in a cursive style with a horizontal line through the middle.

J. William Gadsby
Director, Federal
Management Issues

Bureau believes the new Public Debt Accounting and Reporting System (PARS) will correct its present problems. PARS could strengthen internal controls and enable the Bureau to more accurately account for and report the outstanding public debt and interest. However, to achieve this, management must monitor operations better to ensure that transactions are recorded accurately and timely, and that errors are corrected promptly.

Principal Findings

Weaknesses Are Pervasive and Long-Standing

Since the early 1980s, Bureau management has received numerous reports identifying serious internal control and accounting system weaknesses. A recurring theme has been the lack of timely account reconciliations—a key internal control that helps assure current and accurate accounting system data.

Other reported weaknesses have included (1) the lack of appropriate records to efficiently detect and correct errors, (2) inadequate accounting system documentation and manuals to provide a consistent source of operating procedures, and (3) a lack of training for accountants. Based on Bureau reports, the Office of Management and Budget in 1989 characterized the Bureau as having notably weak internal controls. (See pp. 17 to 19.)

More Management Action Needed

The Bureau's key initiative to correct its weaknesses is PARS, which is scheduled to replace the current system beginning in October 1990. Conceptually, PARS is a step in the right direction that, if properly implemented, will correct or alleviate many problems. But management will need to take several actions to ensure that the implementation of PARS is successful and that its operation results in more accurate accounting for the public debt and related interest. (See p. 19.)

Accounting Records Need to Be Current and Accurate

To ensure that PARS is implemented with accurate and verifiable account balances, Bureau management must complete the effort begun in December 1988 to reconcile the records that account for public debt principal and interest. As of December 31, 1988, 18 principal and interest accounts with balances totaling over \$53 billion had not been reconciled or verified since at least the early 1980s. For example, two principal and

workdays. If errors are not corrected quickly, data in the suspense file will mushroom, resulting in inaccurate accounting. (See pp. 24 to 27.)

Increased Management Oversight Needed

For PARS to operate effectively, Bureau management needs to devote more attention to overseeing operations. Presently, it does not ensure that the data submitted from fiscal agents is timely and accurate; does not routinely analyze differences to see why they occur; and receives little information about the source, type, and frequency of erroneous transactions. This information is needed to correct accounting and control problems. (See pp. 27 to 29.)

To exercise effective oversight, Bureau management will need information from PARS. Management should identify its requirements before PARS is implemented so that it can be used to analyze operations. (See p. 29.)

Recommendations

To ensure that PARS improves accounting for the public debt and related interest, GAO recommends that the Secretary of the Treasury direct the Commissioner of the Bureau of the Public Debt to take several actions, including (1) completing the current reconciliation project and correcting the accounting records prior to the implementation of PARS, (2) increasing managerial oversight of operations to ensure that the internal control and accounting systems are adequate and provide accurate information, and (3) ensuring that PARS provides management with sufficient data to effectively monitor operations. GAO also recommends that the Secretary monitor Bureau management's efforts to implement PARS and other corrective actions. (See p. 30.)

Agency Comments

The Department of the Treasury accepted GAO's recommendations and noted that the Bureau has already taken many corrective actions and plans others to address the issues raised in the report. Treasury's comments are discussed in more detail in chapter 2. (See p. 30.)

Contents

Abbreviations

FMFLA	Federal Managers' Financial Integrity Act of 1982
OMB	Office of Management and Budget
OSAS	Office of Securities and Accounting Services
PARS	Public Debt Accounting and Reporting System

Treasury's Bureau of the Public Debt is primarily responsible for (1) borrowing the money needed to operate the federal government and (2) accounting for the resulting public debt and related interest. Because of the size and importance of the public debt principal and interest, accurately accounting for them is vital to effective federal financial management. Accordingly, our review focused on that mission.

Overview of Bureau Activities

Congress delegated to the Secretary of the Treasury its authority to borrow money on the credit of the United States under Article I, Section 8 of the Constitution. Title 31 of the United States Code authorizes the Bureau to, among other things, prescribe the debt instruments. With this authority, the Bureau (1) prepares Treasury circulars announcing and offering for sale new issues of public debt securities, (2) formulates instructions and regulations pertaining to the issues, and (3) directs the handling of subscriptions and allocates the amounts to be sold at auction.

The public debt is composed of several different types of securities. Treasury securities sold to the public—such as bills, notes, and bonds—have maturities that range from less than 1 year to over 10 years. They are transferable by sale prior to maturity in the secondary government securities market.

Other securities are restricted and sold only for specific purposes. For example, state and local government series securities are issued to states, municipalities, and other government bodies with maturities and characteristics tailored to their needs. Government account series securities represent investments by government-managed trust funds, such as the Social Security Trust Fund. Table 1.1 shows the amounts outstanding for each type of public debt security.

The Office of Securities and Accounting Services (OSAS), composed of four divisions, is responsible for accounting for the public debt and interest and conducting securities operations with Federal Reserve Banks and branches. Thus, this office was the focus of our review. Figure 1.2 shows OSAS organization and provides brief descriptions of its major responsibilities.

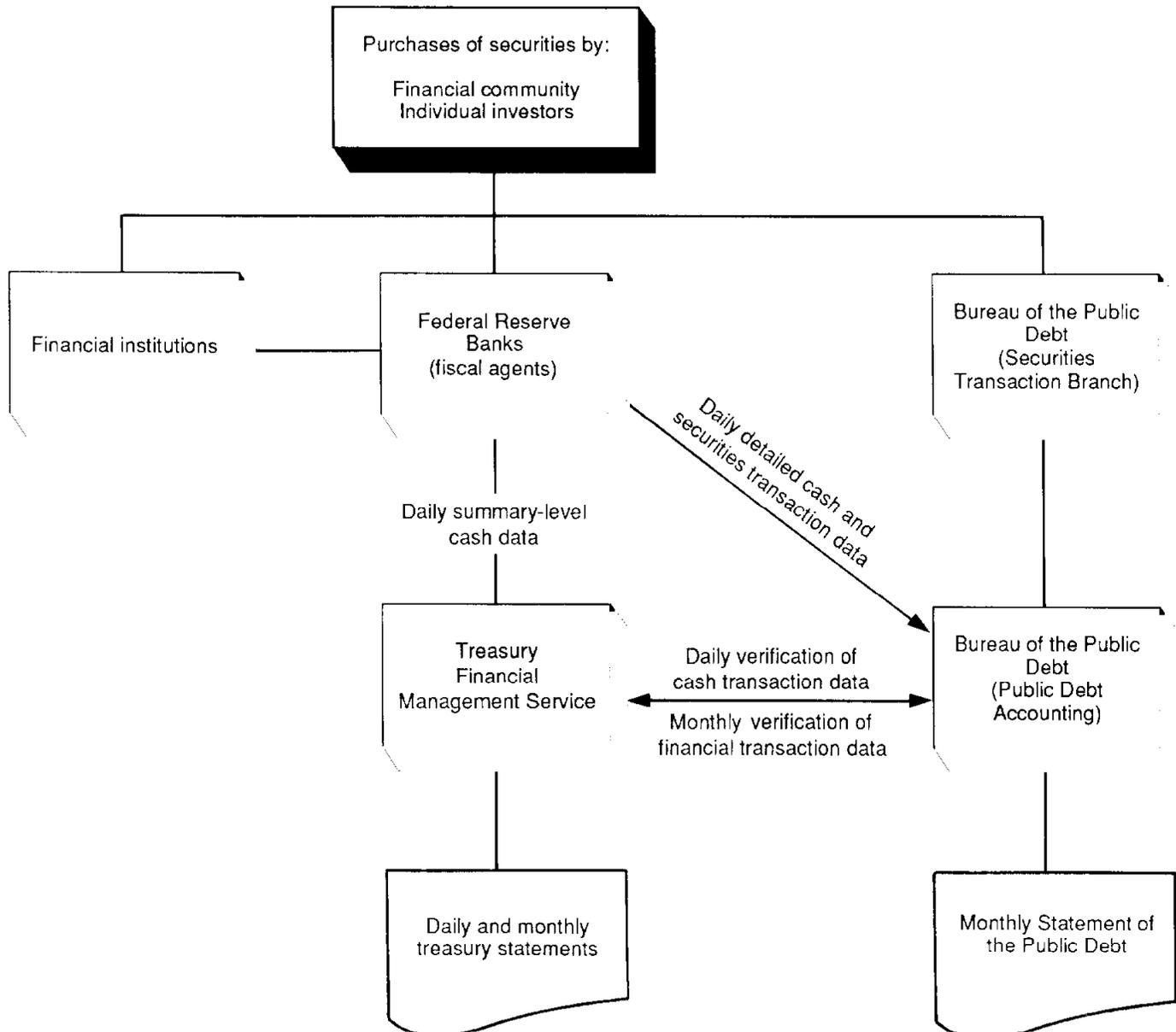
Accounting for the Public Debt

The Bureau, through OSAS, maintains accounting control over public debt receipts and expenditures, securities, and interest costs; maintains individual accounts of security owners; authorizes the payment of principal and interest; and makes the final audits of retired and redeemed securities and interest coupons. OSAS efforts are supported by the Savings Bond Operations Office, which accounts for sales and redemptions of U.S. Savings Bonds and provides computer system support for OSAS systems.

The Bureau is aided in its efforts to account for the public debt by 36 Federal Reserve Banks and branches and two internal organizations that act as fiscal agents.² Generally, the fiscal agents issue, maintain, retire, and redeem securities; make interest payments; maintain detailed commercial book-entry and other account records; account for their public debt transactions; and submit to the Bureau and Treasury's Financial Management Service detailed and summary cash and securities accounting data. Figure 1.3 provides an overview of the interaction between fiscal agents, the Bureau, and the Financial Management Service, which maintains the government's central accounting system.

²The Bureau's two fiscal agents are located in OSAS. The Securities Transactions Branch provides services to the public through walk-up windows at Bureau headquarters. The Division of Securities Accounts maintains special purpose subsystems, such as for registered and state and local government securities.

Figure 1.3: General Overview of the Fiscal Agency Process for Treasury Securities



Source: Bureau of the Public Debt

Objectives, Scope, and Methodology

We reviewed the Bureau's internal control and accounting systems to determine whether they (1) enable the Bureau to accurately account for public debt principal and interest and (2) conform to Comptroller General principles, standards, and related requirements as specified by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Accounting System and Internal Control Requirements

Federal law (31 U.S.C. 3512) requires agencies to establish and maintain accounting and internal control systems that conform to the accounting principles, standards, and related requirements and internal control standards prescribed by the Comptroller General. These standards are documented in GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 2. Specifically, Title 2's Accounting Systems Standards require, among other things, that agencies maintain accounting systems that (1) operate on a double-entry basis (i.e., both the debit and credit sides of a transaction are simultaneously recorded in equal amounts), (2) are on an accrual basis (i.e., transactions are recorded when an event occurs rather than when cash changes hands), and (3) incorporate adequate audit trails (i.e., the records and transaction documents that support accounting entries).

Title 2's Standards for Internal Controls in the Federal Government define the level of acceptable internal control quality. These standards require, among other things, that

- managers and employees understand the importance of developing and implementing good internal controls and maintain and demonstrate a positive and supportive attitude toward internal controls at all times;
- qualified and continuous supervision be provided to ensure that internal control objectives are achieved;
- internal control systems be clearly documented; and
- managers promptly evaluate findings and recommendations reported by auditors, determine proper actions in response to audit findings and recommendations, and complete within established time frames all actions that correct or otherwise resolve the matters brought to management's attention.

In addition, FMFIA places the ultimate responsibility for establishing and maintaining adequate accounting and internal control systems with management. In turn, effective financial management and reporting depend on accounting systems with strong internal controls producing reliable data. Failure to establish and maintain such systems may diminish management's ability to manage efficiently and economically.

Management Must Take Further Actions to Improve Public Debt Accounting

Weaknesses in the Bureau's internal control and accounting systems are serious, widespread, and long-standing. They have resulted in billions of dollars of differences in the cash and securities records that account for the public debt and related interest. These differences are largely attributable to untimely reconciliations. However, we believe that the differences did not result in material inaccuracies in the reported public debt.

Recognizing Bureau systems' inadequacies, management in 1986 began to develop PARS, an automated accounting system scheduled to begin implementation in October 1990. Management believes that PARS will eliminate its present systems weaknesses. Conceptually, PARS is a step in the right direction—a step that, if properly implemented, will correct or alleviate many problems. But management will need to take several actions to ensure both the successful implementation of PARS and that its operation results in more accurate accounting for the public debt and related interest.

For PARS to operate effectively, data entering the system must be timely and accurate. To ensure that accurate data is available to build PARS databases, management needs to complete the reconciliation and verification efforts it began in December 1988. Management also needs to improve its monitoring of fiscal agent operations to ensure that they submit timely and accurate data and promptly correct errors and out-of-balance conditions. Further, management needs to more closely monitor internal operations to ensure that PARS is operating effectively and to identify and correct any internal control weaknesses.

While fiscal agent and internal operations have not been sufficiently monitored in the past, they will require sustained management attention in the future if the goal of PARS to improve the accuracy of accounting for the public debt and interest is to be realized. To improve oversight, management must make basic decisions regarding its information needs. These needs should be programmed into PARS prior to its implementation so that management can use PARS as a tool for analyzing operations.

Control and System Weaknesses Are Serious, Widespread, and Long-Standing

Since the early 1980s, a number of studies have reported internal control and accounting weaknesses in Bureau operations. Concern over the adequacy of the Bureau's control processes continues today. Some of the reported weaknesses are as follows:

- We reported in 1982 that many Bureau account reconciliations were not being completed promptly. In response, management stated that a top

risk area because of major accounting system problems. These problems, which were reported by the Bureau, included the lack of effective general ledger control and an inability to reconcile accounts in a timely manner.

PARS Holds Promise for Correcting Many Weaknesses

Management's foremost effort to correct its internal control and accounting system weaknesses rests with PARS. It will replace the Bureau's current subsystems that account for public debt principal, interest, and securities. PARS is being designed to conform to Comptroller General requirements, and implementation is expected to begin in October 1990.

PARS will be an automated and integrated system that should enable the Bureau to simultaneously account for and balance public debt cash and securities transactions, thus meeting GAO's requirement of operating on a double-entry basis. The double-entry system will eliminate the need for many of the reconciliations that are critical to the effective operation of the current fragmented single-entry subsystems. PARS is also designed to provide a general ledger and improved documentation of public debt principal and interest transactions.

Management Actions Are Needed to Ensure the Success of PARS

To ensure that PARS is implemented and operates successfully, Bureau management needs to address inaccuracies in its current accounting records and improve its oversight of fiscal agent and internal operations. Management needs to ensure that its accounting records, which will be used to establish the PARS databases, are current and accurate. Thus, management will need to complete its efforts to reconcile and verify the records that account for interest, public debt principal, and outstanding securities.

The effective operation of PARS will also require vigorous management oversight. In the past, management did not actively monitor operations. Thus, it was not able to identify and correct internal control weaknesses and accounting inaccuracies. In our opinion, this must change. Management needs to effectively monitor fiscal agent and internal operations. Specifically, management's information requirements need to be programmed into PARS prior to implementation so that management has the data necessary to determine whether (1) transactions are promptly and accurately entered into PARS and (2) corrections of erroneous data are made within the 2 workdays required by Bureau procedures.

Chapter 2
Management Must Take Further Actions to
Improve Public Debt Accounting

Table 2.1: Accounts Needing Reconciliation or Verification as of December 31, 1988

Dollars in thousands

Account title	Status	Balance as of December 31, 1988	Adjustments identified as of January 31, 1990
1. Treasury Bill Discount	active	\$10,035,353	\$236,524
2. Treasury Note and Bond Premium	active	632,870	51,029
3. Treasury Note and Bond Discount	active	5,141,143	106,071
4. Government Account Series Interest	active	210,331	210,331 ^a
5. Government Account Series Principal	active	185,987	185,987 ^a
6. Government Agency—Principal and Interest	inactive (since 1976)	379	379
7. Government Agency—Principal and Interest	inactive (since 1982)	20,648	20,648
8. Government Agency—Principal and Interest	active	519	1,042
9. Prepayments for Treasury Securities	inactive (since 1983)	14,462	14,462 ^b
10. Public Debt Interest Payable	active	36,635,458	^c
11. Internal Banks Suspense	active	162,649	162,649 ^a
12. Interest Appropriation	active		^d
13. Accrued Interest Collected	active	22,947	^c
14. Undeliverable Payments	active	13,672	71
15. Budget Clearing	inactive (since 1985)	3,545	3,545
16. Budget Clearing	active	748	748
17. Missing Unmatured Coupons	active	1,533	201
18. Unavailable Check Cancellations	active	92	92
Total		\$53,082,336	\$993,779

^aReconciliation in process, but entire balance will need to be adjusted.

^bA new prepayment account was opened in 1983.

^cReconciliation not completed.

^dThe Bureau decided not to reconcile this account, as the reconciliation of the other listed interest accounts should verify its accuracy.

^eThe Bureau decided it was not necessary to reconcile this account.

Source: Bureau of the Public Debt.

The Bureau's ongoing reconciliation project had verified the balances in 14 of the 18 accounts as of January 31, 1990, finding inaccuracies in account balances totaling almost \$1 billion. The inaccuracies stemmed from a lack of control over transactions entered into the Bureau's accounts and inadequate supporting records. For example, according to Bureau staff, transactions totaling about \$394 million were improperly entered among the Treasury Bill Discount Account and the Treasury

records. As discussed later in the chapter, fiscal agent securities records differ by billions of dollars each month from the Bureau's securities and principal records.

The second account, the Internal Banks Suspense Account, is not fully reconciled, precluding management from knowing whether and to what extent it has misreported public debt principal and interest. The account is used primarily to record transactions arising from the receipt and disbursement of funds when documentation is not available to enable the Bureau to know the correct account to use. It had an unreconciled balance, as of December 31, 1988, of about \$163 million resulting from about 5,500 transactions occurring from March 1981 to December 1988. Because the balance in the account should normally be zero, the entire balance will need to be adjusted.

According to Bureau officials, most of the transactions in the suspense account originated in the Bureau's Securities Transactions Branch. As an internal fiscal agent, the Branch receives deposits and makes disbursements through over-the-counter transactions. Problems in the Branch have been long-standing. Since 1981, the Branch has not provided sufficient information on some of its transactions to enable the Bureau to accurately account for them.

In addition, the Treasury Inspector General and a Bureau internal control review both reported in 1987 that the Branch's internal controls were so lax that unauthorized employees had access to blank Treasury checks and the checkwriter. The lax internal controls in the Branch, together with the untimely account reconciliation, suggest a vulnerability to fraud and abuse. While the current reconciliation effort has revealed no indication of fraud, the reconciliation must be completed before management will know if fraud occurred.

Because the Suspense Account has not been fully reconciled as of March 1990 and contains transactions that properly should be accounted for elsewhere, management does not yet know the extent to which it has misstated and will need to adjust public debt principal, interest, or other accounts. At any rate, sizeable adjustments will be required. For example, the reconciliation of the account identified one transaction that understated fiscal year 1983 interest expense by about \$38.4 million. To correct the transaction, the Bureau preliminarily decided to adjust fiscal year 1990 interest expense, overstating it by \$38.4 million. In December 1989, about \$102 million involving 1,304 transactions—most of which originated in the early 1980s—remained unresolved.

The system also produces daily, weekly, and monthly securities reports that further identify all out-of-balance conditions. Bureau employees continuously contact the fiscal agents to request correcting documents within the 2-workday requirement. If the differences identified on the daily and weekly reports were corrected in a timely fashion, the monthly reports would show no out-of-balance conditions.

Finally, about 45 workdays after the end of each month the system produces a cash-actual match and monthly accountability reports, a third and crucial control process. If all of the errors and out-of-balance conditions that were identified by the two earlier control processes had been corrected in a timely manner, virtually no differences would be reflected by this control. However, as discussed below, billions of dollars of differences have been identified.

The cash-actual match lists all loan differences still remaining between the securities-based balances and the cash-based public debt principal balances used to report the outstanding public debt. These differences should be reconciled and corrected promptly and accurately to provide management with assurance that its single-entry cash and securities records are in balance, thus providing proper control over public debt principal.

However, our analysis of fiscal year 1988 cash-actual matches found that average monthly gross differences exceeded \$3 billion. We also found that it took on average about 9 months after the close of a transaction month to correct all differences for that month. The differences and the time needed to resolve them weaken management's assurance that the public debt was accurately reported.

The monthly accountability reports identify all differences between the Bureau's securities-based loan balances and loan balances maintained by each fiscal agent. To produce these computer-generated reports, Bureau procedures require that fiscal agents submit their loan balances by the 8th workday after month-end. It is imperative that fiscal agent balances be accurate because they are the basis for making interest and redemption payments to securities owners.

However, our analysis of the September 1988 monthly accountability reports found gross differences totaling \$278 billion, of which \$273 billion resulted from fiscal agents' late reporting. Twelve of the 36 Federal Reserve Banks and branches did not promptly provide loan balances totaling about \$126 billion, and one of the Bureau's internal fiscal agents

reports are prepared. Yet, as noted earlier, these two control processes show billions of dollars of differences.

PARS will have the same requirement as the present system concerning the timeliness of corrections. Under PARS, data will be entered and processed much faster than it is now. PARS will enable fiscal agents to process cash and securities source data simultaneously, with edit routines permitting only balanced and correct data to enter the system. Data failing the edits will be entered into a suspense file, and fiscal agents will be required to correct the data within 2 days.

For PARS to operate effectively, erroneous transactions must be corrected promptly. If not, the data in the suspense file will mushroom, and this will result in inaccurate accounting and reporting of public debt principal and interest.

Better Monitoring of Operations Needed

For PARS to operate effectively, management needs to devote greater attention to overseeing operations (1) to ensure that data submissions from fiscal agents are timely and accurate and (2) to identify and correct the control weaknesses contributing to errors, adjustments, and out-of-balance conditions. To accomplish this oversight effectively, management needs to determine its information requirements and program them into PARS prior to its implementation.

Bureau management acknowledges that many of its internal control weaknesses and resulting accounting inaccuracies are caused by limited managerial oversight. Management does not routinely analyze differences and adjustments to determine why they occur and receives little information about the source, type, and frequency of erroneous transactions and the extent of accounting discrepancies. Lacking this information, management can neither determine the causes of the Bureau's accounting and control problems nor take effective action to correct them.

One example of the lack of managerial oversight involves the Securities Transactions Branch. A Branch official acknowledged that, although improvements are being made, the Branch's internal control and accounting systems are weak. Also, officials in other OSAS divisions told us that management was aware of out-of-balance conditions in their operations caused by the Branch's errors. For example, almost all of the unreconciled transactions in the previously discussed Internal Banks Suspense Account (see p. 23) originated in the Branch. Even though

which fiscal agents process late or incorrect transactions or the types of transactions necessitating adjustments. Thus, management cannot identify potential fiscal agent internal control weaknesses and recommend actions to correct them.

Problems in the present environment exist in large measure because management has not effectively monitored operations. If PARS is to operate successfully, Bureau management will need information from the system to enable it to monitor operations. For example, it will need sufficient information to oversee the timeliness and accuracy of data entering the system and the promptness with which corrections are made.

However, management has not made basic decisions as to what information it will need to monitor operations. Officials said they do not plan to address information needs until after the system is implemented. Therefore, the PARS development team is designing the system without specific management information requirements. This approach will postpone the use of PARS as a management tool.

Conclusions

Management has not established and maintained effective systems of internal and accounting control. As a result, the Bureau is not accounting for and reporting the outstanding public debt and interest as accurately as it could. Recognizing this, Bureau management is developing PARS as a replacement system.

While PARS is a step in the right direction, vigorous management oversight of fiscal agent and internal operations will be required if PARS is to achieve its potential to improve controls and more accurately account for and report the public debt and related interest. Specifically, management must

- complete efforts to develop the accurate and current records needed to build the PARS databases,
- ensure that fiscal agents provide timely and accurate transactions data and correct errors promptly,
- actively seek out and correct any internal control weaknesses causing out-of-balance conditions,
- ensure that account reconciliations and balance verifications are done accurately and in a timely manner, and
- program into PARS before its implementation the information management needs to oversee operations.

Appendix I
Comments From the Department of
the Treasury

Public Debt actions: completed and planned.

Public Debt has accomplished or has in process a number of management and systems-related actions that directly address problems with our system and supply needed management attention to accounting, reporting, and reconciliation processes.

As of December 31, 1989, a new Office of Public Debt Accounting was established in Public Debt. This office, under the direction of a senior level executive, will provide increased managerial oversight to accounting operations, system controls and the implementation of PARS.

Reconciliations have been completed on 16 of the 18 accounts which were backlogged. All work possible on the remaining reconciliations will be completed and adjustments will be proposed by June 30, 1990.

All reconciliations on the 66 public debt accounts are being performed timely.

The new Public Debt Accounting and Reporting System is under development and will be implemented in FY 1991.

In response to GAO suggestions, additional management information on key areas of accounting performance is now being regularly received and analyzed.

Feedback to both internal and fiscal agent reporting entities has been sharpened and made more timely. The senior management of these organizations is promptly notified when differences remain unresolved, when reporting error rates are out of line, and when patterns of problems appear.

The balancing of the Bureau's securities accounting system and the closing of a transaction month has been accelerated from 28 days to 12 workdays following the month. This acceleration will continue in preparation for PARS implementation.

Operating procedures have been reviewed and written or updated as necessary. Current procedures are in place for all account reconciliations.

The process of making needed accounting adjustments has been significantly tightened. Supervisors and managers within the Office of Public Debt Accounting are now more directly involved in the review and approval of such adjustments.

A key element of our current control environment is the "cash actual" match. This is a comprehensive automated reconciliation of principal outstanding between our Cash and Securities sub-systems. These matches have been accelerated by 20 workdays.

The Cash Accounting System - an automated component of our overall debt accounting system - was redesigned and made more reliable.

Reporting from the Bureau's Securities Transaction Branch has dramatically improved due to the implementation of a number of audit and internal control reviews and self-initiated control enhancements over checks issued and suspense accounting.

Efforts are underway to improve the management information available for monitoring our prepayment account.

We intend to automate the now manual process of matching deposit-in-transit and payment-in-transit items.

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Comments From the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON

April 18, 1990

ASSISTANT SECRETARY

Mr. Richard L. Fogel
Assistant Comptroller General
General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

Thank you for the opportunity to comment on the draft GAO report concerning public debt accounting. There is no doubt that our current accounting system is outdated and in need of replacement. As noted in your draft report, we have been working on the development of a new accounting system since 1986 and it is scheduled to be implemented next year. Many efforts to address the issues raised in the report have already been accomplished by the Bureau of the Public Debt and other actions are well underway. A listing of completed and planned actions is attached. These essentially address the recommendations in the report, which I accept.

I share your concern regarding our difficulty in keeping a number of our subaccounts reconciled. During the past 15 months, we have given this area top priority. As a result, we have nearly completed the reconciliation of old activity. Our reconciliation effort has found timing differences, offsetting differences between subaccounts, and failures to obtain supporting documentation. However, this comprehensive effort has found no payment errors or any case of incorrect securities issuance. Further, we have found no instance or indication of any impropriety. No losses to the Government have been identified and none are anticipated. When the reconciliations are completed, we will make the appropriate accounting adjustments. In this context, I believe it is important to emphasize that even though reconciliations have not always been performed on schedule, the public debt accounting system, when viewed in its entirety, has accounted for the public debt accurately and in a manner under control.

We appreciate the professional manner with which the review was conducted, and want to assure you that the recommendations have received serious attention within the Department of the Treasury, and many are already being implemented.

Sincerely,

Gerald Murphy
Gerald Murphy
Fiscal Assistant Secretary

Enclosure

Recommendations

To ensure that PARS improves accounting for the public debt and related interest, we recommend that the Secretary of the Treasury direct the Commissioner of the Bureau of the Public Debt to

- complete the current account reconciliation project prior to the implementation of PARS, including developing a strategy for offsetting, writing-off, or otherwise adjusting the numerous differences—some unreconcilable—in the Bureau's accounts. This strategy should be coordinated with Treasury and OMB officials because of its potential to alter the reported outstanding balance of public debt and interest expense.
- increase managerial oversight and emphasis over internal and fiscal agent operations to ensure that the systems of internal and accounting control are adequate and maintain accurate data. To do this, Bureau management must ensure that (1) fiscal agents furnish source documents in a timely manner, (2) fiscal agent and Bureau personnel make timely corrections of source document and other accounting errors, (3) actions are taken to identify and correct internal control weaknesses which cause out-of-balance conditions, (4) timely and thorough reconciliations are made and account balances are verified, and (5) the information it needs to effectively monitor internal and fiscal agent operations is built into PARS prior to its implementation.

We further recommend that the Secretary monitor Bureau management's efforts to develop and implement the replacement accounting system, PARS, and take other necessary actions to more accurately account for the public debt of the United States and related interest.

Agency Comments and Our Evaluation

The Department of the Treasury, in its written comments on a draft of this report (see app. I), accepted our recommendations. It stated that many corrective actions have already been accomplished, and others are underway to address the issues discussed in the report. Treasury said it shared our concern about untimely reconciliations, leading it to give top priority to reconciling the out-of-balance accounts. When the reconciliations are completed, Treasury said it will make all needed adjustments.

Bureau management has knowledge of the Branch's problems, management has not requested information from the affected divisions on the extent and type of operational problems caused by the Branch. This information would enable management to identify the specific internal control weaknesses needing correction.

In addition, management has not exercised the oversight needed to improve the accuracy of securities records. For example, management does not receive information available in securities error reports that would enable it to determine the type, frequency, and source of errors—specifically which fiscal agents are causing the most errors. The 1988 reports revealed 20,111 errors—1.2 percent of reported transactions. Fiscal agents caused 82 percent of the errors, of which 76 percent were due to late reporting and 13 percent to incorrect numerical data.

Management also does not receive information on (1) the number of loans and dollars out of balance when the cash-actual match and monthly accountability reports are run or (2) the length of time needed to completely reconcile and adjust all securities discrepancies for a transaction month. By receiving and analyzing this information, management could identify the areas in which fiscal agents may have internal control weaknesses. It could then recommend that corrective actions be taken to improve the accuracy of data submissions and the timeliness of corrections.

Further, we found that management was not monitoring the accuracy and timeliness of cash transactions data. Although fiscal agents are required to promptly and accurately report all cash transactions, our analysis revealed instances in which this was not done. For example, we found that of several thousand cash transactions reported during September 1988, 156 were reported between 31 and 180 days late, and 90 were reported even later. One fiscal agent erroneously reported the purchase of a security for \$2.1 million, and the error was not reversed for 36 days.

As a result of untimely and incorrect transactions, significant adjustments had to be made each month to prior months' outstanding principal balances. Our analysis revealed an average monthly gross change of about \$228 million during fiscal year 1988. This amount represented about 1.1 percent of the average monthly growth of the public debt.

Management, however, has not required that analyses of the cash adjustments be made. As a result, it lacks the information to know

failed to submit on time its state and local government securities balances totaling \$147 billion. As a result, Bureau employees were required to manually compare the \$273 billion in loan balances to identify differences—a time-consuming process.

Additionally, our analysis of securities data pertaining to fiscal year 1988 monthly accountability reports revealed a pattern of out-of-balance conditions and untimely corrections. We found that of an average monthly total of 15,850 loans accounted for by the fiscal agents, 1,147—over 7 percent—were out of balance with the Bureau's securities records. It took an average of over 4 months to correct the monthly loan differences with all fiscal agents. In particular, it took an average of over 14 months to correct the monthly loan differences of one of the Bureau's internal fiscal agents.

Further, the securities-based records are substantially out of balance with the two Bureau subsystems that account for about \$150 billion of state and local government securities and about \$15 billion of registered securities. The securities loan balances differed from those maintained by the state and local government subsystem by a monthly average of over \$300 million during fiscal year 1988. It generally took between 3 and 4 months to correct the differences. In addition, the subsystem contained long-standing differences of about \$2.3 million, which the Bureau has been unable to reconcile.

We also found average monthly differences of almost \$500 million between the securities balances and those maintained by the detailed registered subsystem. Over a 5-month test period during fiscal year 1988, an average of 314 of 421 loans were out of balance. Of the 421 loans controlled by the subsystem, 131 were unmatured, and 127 of these were out of balance by about \$107 million; 290 were matured loans, and 187 of these were out of balance by about \$386 million. It generally took up to 3 months to correct the differences.

The billions of dollars of loan differences in the present securities records and the length of time it takes to correct them cause us concern about whether PARS will be able to accurately account for the outstanding public debt. Under the present system, with its requirement that corrections be made within 2 workdays, numerous errors identified a few days after source documents were processed remained uncorrected for months. Further, Bureau employees request and process correcting documents from fiscal agents for over 2 months after the end of a transaction month before the cash-actual match and monthly accountability

To ensure that PARS is implemented with accurate and verifiable account balances, Bureau management will need to complete the reconciliation effort and offset, write off, or otherwise adjust the numerous unreconcilable amounts and identified differences in the accounts. However, because adjustments to one account may affect other accounts, management has decided to postpone making any adjustments until the reconciliation project is finished and all needed adjustments are identified. Then management will decide on a strategy for making adjustments. In doing so, it should request advice from Treasury and OMB officials because of the potential to alter the reported outstanding public debt and interest expense.

Preliminarily, management has decided to increase interest expense by the \$117.4 million found during the reconciliations of the Treasury Note and Bond Discount and Premium accounts and the Internal Banks Suspense Account. It believes, however, that any required changes to the reported public debt will be minimal. Based on our assessment of the potential effect on the reported public debt of the inaccuracies found by the reconciliation effort and several billion dollars of securities differences, we believe that these differences are not sufficiently large to cause the debt to have been materially misstated.

**Corrections of Securities
Differences Need to Be More
Timely**

To prepare for PARS implementation and to accurately account for \$2.8 trillion in outstanding public debt securities, the Bureau needs to make timely corrections of the out-of-balance conditions in its securities accounts. At present, the Bureau's securities-based records differ by billions of dollars each month from both the cash-based records it maintains over public debt principal and the securities records kept by fiscal agents. However, due to untimely corrections by fiscal agent and Bureau personnel, some differences remain up to 9 months later. As a result, the Bureau never knows the correct amount of outstanding public debt securities. It will need to know the correct amount in order to build accurate PARS databases. Further, prompt correction of differences is vital to ensuring the successful operation of PARS.

In the present system, the Bureau has a series of control processes that enable it to promptly identify the securities transactions needing correction. First, the securities data submitted by fiscal agents undergo numerous computer edits, and all transactions failing edits are identified. In this way, Bureau personnel become promptly aware of all erroneous data entering the system. Then they contact the fiscal agents and request that correcting transaction documents be submitted within the 2 workdays required by Bureau procedures.

Note and Bond Premium and Discount accounts, the net of which will require the Bureau to increase the reported interest expense by about \$79 million. Further, improper transactions entries between the Government Account Series Interest and Principal accounts will require the Bureau to make adjustments of almost \$400 million.

Inadequate supporting records are also hampering the Bureau's efforts to reconcile several other accounts. It is unable to identify and will need to decide the disposition of over \$21 million in transactions representing the balances in its two inactive Government Agency—Principal and Interest accounts. Further, the Bureau is unable to reconcile the balance of \$14.5 million in its Prepayment Account. The account has been out of balance since at least 1983. In writing off the balance the Bureau may need to adjust the outstanding public debt.

Two accounts in particular illustrate the challenges facing the Bureau in completing its reconciliations prior to PARS implementation and the consequences of the Bureau's inattention to timely reconciliations. Without verifying the balance in the Public Debt Interest Payable Account, Bureau management cannot be certain that the amount of interest it calculates and reports monthly as the government's interest expense is accurate. The lack of reconciliation of the Internal Banks Suspense Account has reduced management's assurance of the accuracy of public debt principal and interest.

The Bureau has not verified the accuracy of the \$37 billion balance in its Public Debt Interest Payable Account, which represents about 70 percent of the amount needing reconciliation. The account is used to record both the calculated monthly interest expense and related semiannual interest payments for such securities as Treasury notes and bonds. Interest on these securities represents over 60 percent of the reported annual interest expense. Until the balance in the account is fully verified, the Bureau will not know whether and by how much it has misreported interest on the public debt.

The Bureau will have considerable difficulty verifying the accuracy of the account's balance because controls do not exist to ensure that the reported monthly interest expense equals the semiannual interest actually paid. These could differ because the monthly interest expense is calculated from different records than those used for the payment of semiannual interest. The monthly interest expense is calculated on the basis of the principal balances recorded in the Bureau's records while semiannual interest payments are made from fiscal agent securities

Accounting Records Need to Be Accurate and Current

The Bureau's records will be the foundation of the PARS databases; therefore, they must be current and accurate prior to PARS implementation. However, the failure to reconcile interest and principal accounts since at least the early 1980s, combined with inadequate records, is complicating current efforts to make the records accurate. Further, untimely corrections of out-of-balance conditions have hampered the Bureau's efforts to maintain current and accurate securities records. The successful implementation of PARS depends to a large degree on resolving these differences in the Bureau's accounting records.

Interest and Principal Accounting Need to Be More Accurate

The Bureau's accounting records for interest and public debt principal are not accurate. An ongoing Bureau project to reconcile 18 accounts has found almost \$1 billion of inaccuracies and still must reconcile the \$37 billion Public Debt Interest Payable Account. Bureau management told us in December 1989, however, that the reconciliation project had found no evidence of impropriety or loss to the government. When the project is completed—management estimates this will be by the end of June 1990—the Bureau will need to decide how to adjust the identified differences. These adjustments may lead to changes in the reported public debt and related interest expense.

Since at least the early 1980s, the Bureau had not verified or reconciled the accuracy of 18 interest and principal accounts, which had balances totaling about \$53 billion at December 31, 1988. Management took the position that reconciling these accounts was not a priority in light of the amount of resources needed. However, acting on concerns we raised during our review, management began to reconcile these accounts in December 1988.

Table 2.1 lists the 18 accounts and their balances as of December 31, 1988; notes whether they are currently in use; and shows the amounts to be adjusted as of January 31, 1990. The table also shows that since 1976 four accounts were placed in an inactive status because they were poorly maintained and unreconcilable, requiring new accounts to be opened. Many of the accounts listed are discussed throughout the chapter.

priority project was to ensure that reconciliations would be kept current. However, internal control reviews done by Bureau employees in 1986 and 1987 and a Department of the Treasury Inspector General report issued in December 1988 reported continued untimely reconciliations. The lack of timely reconciliations and verifications precludes the Bureau from accounting as accurately as it could for public debt principal and interest.

- The Bureau does not keep records that enable it to efficiently detect and correct errors. It does not maintain a general ledger and has weak audit trails—the records and transaction documents that support accounting entries. These internal control weaknesses were brought to management's attention through Bureau internal control reviews done in 1984 and 1987 and the December 1988 Inspector General report. Without these controls, the Bureau's efforts to reconcile or verify account balances are much more difficult and time-consuming.
- The absence of systems documentation, manuals, and operating procedures was reported to management in internal control reviews done in 1984, 1986, and 1987. Without this documentation, staff does not have a consistent source of information for understanding and operating the Bureau's accounting system. This lack of documentation also hampers effective on-the-job training.
- In addition to on-the-job training weaknesses, management has not established formal training programs to ensure that its operating accountants maintain the skills needed to perform their assigned duties as well as understand the importance of developing and implementing good internal controls. This weakness was noted in a 1987 internal control review. However, 13 of the 45 operating accountants employed by the Division of Public Debt Accounting since 1987 received no training in either 1987 or 1988. In 1989, on the basis of concerns we raised during our review, the Bureau began to provide internal controls training to its accountants.
- According to a March 1989 contractor's report, the Bureau lacks the controls needed to verify, prior to payment, the accuracy of the \$50 billion disbursed annually for interest and redemptions by its state and local government securities subsystem. The contractor stated that this was a material internal control weakness. Further, GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, requires payments to be reviewed and certified prior to the disbursement of funds. After our review, management informed us that it implemented the contractor's recommendation to design a statistical sampling procedure for testing the accuracy of payments.
- In an October 10, 1989, letter to the Department of the Treasury, the Office of Management and Budget (OMB) identified the Bureau as a high

Scope and Methodology

To achieve our objectives, we concentrated our evaluation on the five key Bureau subsystems, which account for about 96 percent of the outstanding public debt. We did not review the savings bonds accounting system in Parkersburg, West Virginia, because savings bonds represent only 4 percent of the debt. We reviewed reports on and met with management about Securities Transactions Branch operations but did not review the operations of the Branch. Further, we did not review the operations of Federal Reserve Banks and branches or the system design of PARS.

In the course of our review, we interviewed OSAS management, supervisors, and staff. We reviewed available subsystem flowcharts and written procedures and observed operating practices. We assessed the potential effect of accounting inaccuracies on the reported public debt. We also analyzed and tested subsystem operations to determine their effectiveness and conformance with established criteria but did not perform tests to ensure the accuracy of the computer-based data we reviewed.

We reviewed reports by GAO, the Inspector General, and contractors, and examined Bureau internal control reviews to assess management responsiveness in correcting identified internal control weaknesses. Further, we assessed both the adequacy and the use by management of information to monitor internal and fiscal agency operations. We also discussed with management and the PARS design staff the efforts being made to ensure that (1) the new system conforms to Comptroller General requirements and (2) provides necessary management information.

Our work was done between April 1988 and August 1989 at Bureau headquarters in Washington, D.C., in accordance with generally accepted government auditing standards. We discussed our findings and observations with Treasury officials and Bureau management throughout the course of our work. The Department of the Treasury provided written comments on a draft of this report. These comments are discussed in chapter 2 and are included in their entirety as appendix I.

To maintain accounting control over and report on all transactions affecting the public debt, the Bureau maintains numerous subsystems that account for the activity of its fiscal agents. The single-entry subsystems, which are manually intensive and not integrated with each other, require the Bureau to account separately for cash transactions and securities transactions. For example, when an investor purchases a newly issued security, the Bureau receives two separate transaction documents—one requiring an entry to increase cash and the other to increase outstanding securities. The Bureau then must verify that both sides of the transaction are in balance to assure that its records are appropriately controlled.

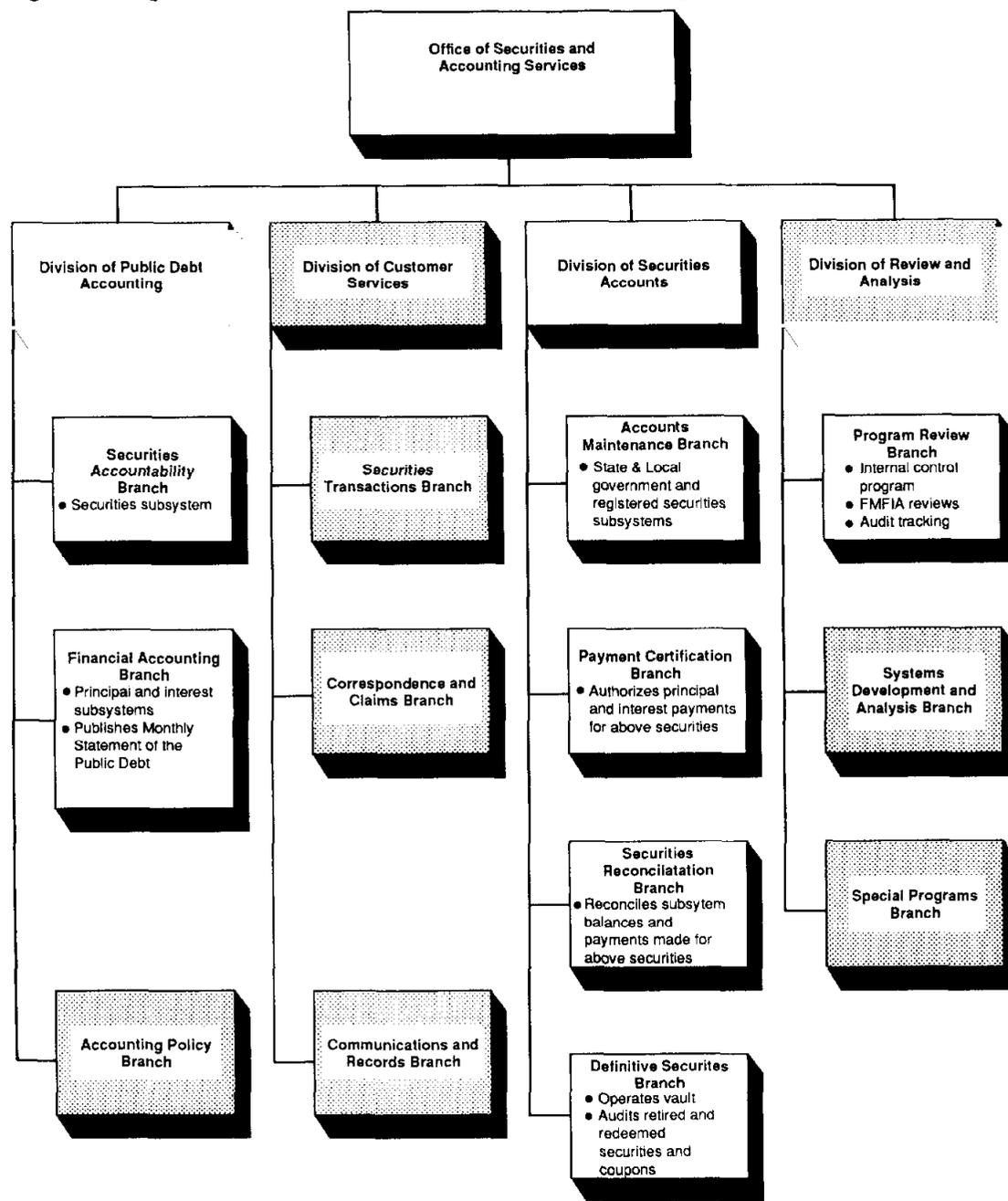
Table 1.2 provides a brief description of the five key Bureau subsystems on which our review concentrated.

Table 1.2: Five Key Bureau of the Public Debt Subsystems

Subsystem	Description
Cash-based principal subsystem	Records and summarizes cash transactions data reported daily by fiscal agents—transactions affect the principal of the public debt, such as for securities issues, redemptions, and new issue prepayments.
Cash-based interest subsystem	Records and summarizes interest payment data as reported daily by the fiscal agents. It calculates monthly accrued interest expense on the basis of balances recorded in the principal subsystem.
Securities-based subsystem	Maintains control over matured and unmatured securities. It records and summarizes the securities transactions data transmitted daily by the fiscal agents. The original issue and redemption data should mirror the cash transactions data recorded in the principal subsystem.
Registered securities subsystem	Accounts for registered Treasury notes and bonds and contains detailed records such as the names and addresses of securities owners. It controls the redemption and retirement of the securities and the payment of interest. Its balances should agree with those maintained by the securities-based subsystem.
State and local government securities subsystem	Establishes and maintains detailed accounts for owners of those securities as well as other miscellaneous securities. It controls the redemption of the securities and the payment of interest. Its balances should agree with those maintained by the securities-based subsystem.

The Bureau is currently developing an integrated accounting system to replace its current subsystems. The Public Debt Accounting and Reporting System (PARS) is being designed as an automated, double-entry system that will enable the Bureau to simultaneously account for and balance public debt cash and securities transactions. Implementation of PARS is expected to begin in October 1990.

Figure 1.2: Organization of the Office of Securities and Accounting Services, Bureau of the Public Debt



 Not reviewed by GAO

Source: Bureau of the Public Debt

Table 1.1: Outstanding Public Debt as of September 30, 1989

Type of security	Dollar value (in billions)	Percent
Treasury bills	\$407	14.2
Treasury notes	1,133	39.7
Treasury bonds	338	11.8
Savings bonds	114	4.0
State and local government series	159	5.6
Government account series	664	23.2
Other miscellaneous	22	0.8
Non-interest bearing securities	21	0.7
Total	\$2,858	100.0

Source: Monthly Statement of the Public Debt, September 30, 1989.

Ownership of public debt securities may be evidenced by an engraved certificate or an accounting entry. For example, prior to 1986, registered securities were issued in certificate form. The certificates were inscribed with the name of the owner and were redeemable only by the owner. Since 1986, however, new securities have been available only in book-entry form. These are recorded by accounting entries in the records of the Bureau, Federal Reserve Banks, or financial institutions. For example, an investor may purchase a Treasury security through a commercial bank, which will account for the investor's ownership in its records. In turn, the securities holdings of the commercial bank will be reflected in the commercial records of a Federal Reserve Bank, and the Federal Reserve Bank's commercial securities accountability will be reflected in the Bureau's records.

Organization of the Bureau

The Bureau is organized into five operating offices; each is headed by an Assistant Commissioner who reports directly to the Commissioner.¹ The Offices of Securities and Accounting Services, Administration, Automated Information Systems, and Finance are headquartered in Washington, D.C.; the Savings Bond Operations Office is located in Parkersburg, West Virginia. The Bureau's Commissioner reports to Treasury's Fiscal Assistant Secretary, and the Bureau is part of the Treasury Fiscal Service.

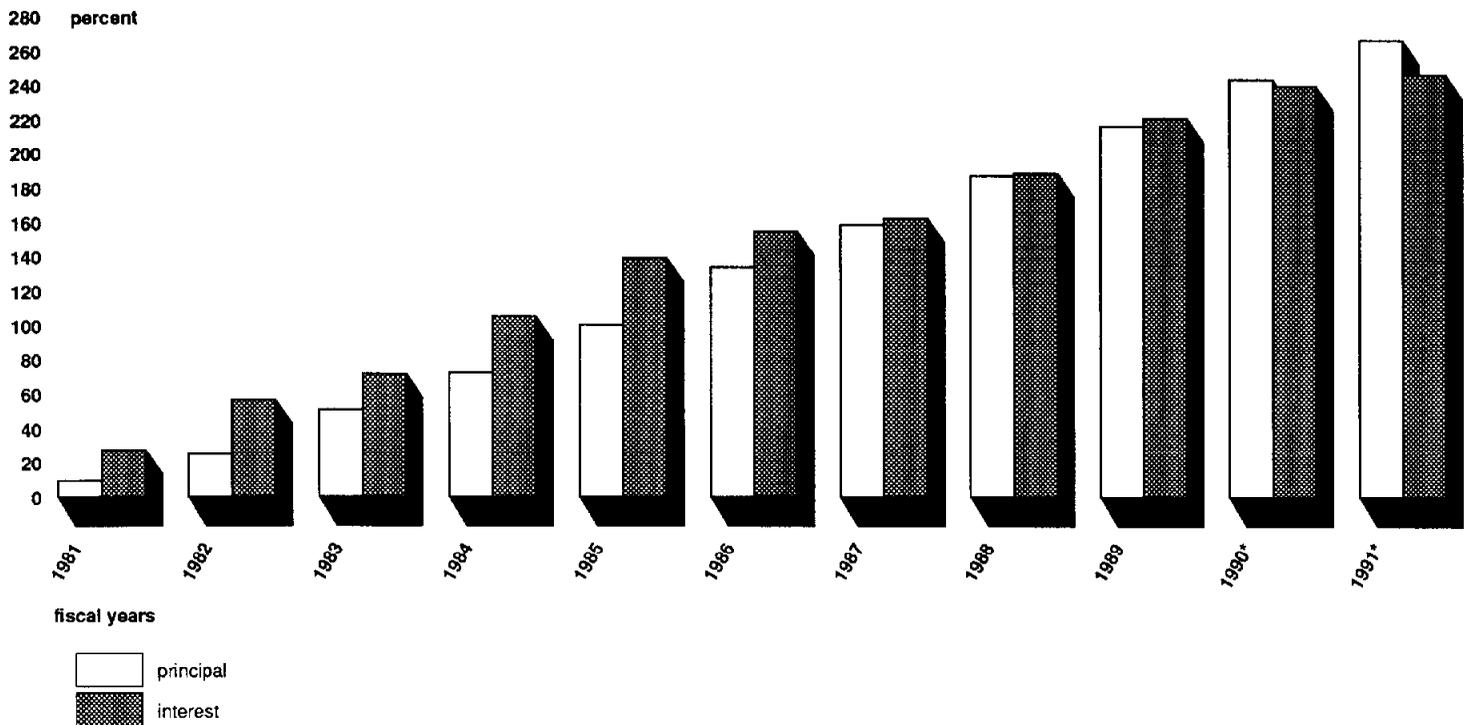
¹In December 1989, Treasury authorized the Bureau to establish an Office of Public Debt Accounting. During our review, Public Debt Accounting was a division within the Office of Securities and Accounting Services.

Introduction

The federal government's need to borrow funds to finance operations grew significantly during the 1980s, due in part to the decade's large budget deficits. Since 1980, the public debt—the money borrowed by the Department of the Treasury and not yet repaid—has increased by almost \$2 trillion. As of September 30, 1989, the outstanding public debt of the United States exceeded \$2.8 trillion.

Concurrently, interest on the public debt has become an ever larger component of federal outlays, rising from 10.2 percent of the budget in 1980 to 16.1 percent in 1989. During this period, interest expense grew by about \$164 billion. In fiscal year 1989, interest on the public debt cost taxpayers \$239 billion. As shown in figure 1.1, both the outstanding public debt and related interest have grown by over 200 percent since fiscal year 1980.

Figure 1.1: Public Debt and Interest, Percent Growth From Base Year 1980



*Note: Principal and interest growth for 1990 and 1991 are based on estimates.
Source: Budget of the United States Government, Fiscal Years 1990 and 1991.

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interest accounts for government-managed funds were out of balance by almost \$400 million. (See pp. 19 to 22.)

The ongoing project had reconciled 14 of 18 accounts by January 31, 1990, and found inaccuracies of almost \$1 billion. For example, three interest accounts were found to contain errors totaling about \$394 million. (See p. 21.)

The Bureau still must reconcile its two most difficult accounts. One is the Public Debt Interest Payable Account, from which the Bureau reports over 60 percent of the government's annual interest expense. Until this account is reconciled, the Bureau cannot verify that the reported interest expense equals the amount of interest actually paid. The other account—the Internal Banks Suspense Account—was out of balance by about \$163 million as of December 31, 1988, preventing the Bureau from knowing whether it misstated public debt principal, interest, or other accounts. (See pp. 22 to 23.)

In December 1989 Bureau management told us the reconciliation project had found no evidence of impropriety or loss to the government. While GAO's review was not directed at uncovering fraud and abuse (and found no such evidence), it identified one account—unreconciled as of March 1990—that appeared vulnerable to fraud. (See pp. 20 and 23.)

Management estimates completion of the reconciliation project by the end of June 1990. At that time, management will need to decide how to adjust the identified differences. So far, it has determined that public debt interest expense will have to be increased by at least \$117.4 million, but management believes the effect on the reported public debt will be minimal. GAO believes these differences are not sufficiently large to cause the debt to be materially misstated. (See pp. 20 and 24.)

To ensure that accurate securities records are available for PARS implementation, the Bureau and its fiscal agents will need to more quickly correct out-of-balance conditions in the records that account for outstanding public debt securities. For example, during fiscal year 1988, the average monthly gross difference between the Bureau's securities records and its principal records exceeded \$3 billion. These differences are usually reconciled within 9 months. Management needs to know the correct amount of outstanding securities more quickly to build accurate PARS databases. PARS will process data much faster, and edit routines will accept only balanced and correct data. Data that fail edits will go into a suspense file, and fiscal agents will have to correct errors in 2

Executive Summary

Purpose

The nation's public debt—the funds borrowed to operate the federal government and finance federal budget deficits—grew rapidly during the 1980s and now exceeds \$2.8 trillion. Interest on that debt cost taxpayers \$239 billion—about 16 percent of total budget outlays—in fiscal year 1989. Because of the size and importance of the public debt and related interest, accurately accounting for them is vital to effective federal financial management.

The primary mission of the Department of the Treasury's Bureau of the Public Debt is to borrow and account for funds and report the outstanding public debt and related interest. GAO reviewed the Bureau's internal control and accounting systems to determine whether they (1) enable the Bureau to accurately account for the public debt and related interest and (2) conform to Comptroller General standards as required by the Federal Managers' Financial Integrity Act of 1982. This work was done as part of GAO's continuing effort to review the adequacy of agency financial management systems.

Background

Several types of Treasury securities make up the public debt. Some—such as bills, notes, and bonds—are sold to the general public. Others are sold only to state and local governments and government-managed funds such as the Social Security Trust Fund. (See pp. 9 to 10.)

Securities transactions are generally handled by 36 Federal Reserve Banks and branches and two internal Bureau organizations that act as the government's fiscal agents. The Bureau records and summarizes the transactions in its accounting system, which is primarily composed of five manually intensive, nonintegrated subsystems. These subsystems account for the outstanding public debt, the government's interest expense, outstanding securities, and state and local government and registered securities. (See pp. 11 to 14.)

Results in Brief

Inadequate oversight of operations by Bureau management has resulted in long-standing internal control and accounting system weaknesses. The systems do not conform to Comptroller General standards. The weaknesses have led to billions of dollars of differences in the records that account for the outstanding public debt and related interest. These differences are largely attributable to untimely reconciliations.

Bureau management began to develop a replacement accounting system in fiscal year 1986 and plans to implement it in fiscal year 1991. The

